

SPECIAL COMMITTEE ON AIRPORT ACTIVITIES

May 17, 2021

6:00 p.m.

Matthew Normand, City Clerk, called the meeting to order in absence of a chairman, stated due to the COVID-19/Coronavirus crisis and in accordance with Governor Sununu's Emergency Order #12 pursuant to Executive Order 2020-04, this Committee is authorized to meet electronically, and called for a motion to elect a Chairman Pro-Tem.

Alderman Shaw nominated Alderman Cavanaugh, duly seconded by Alderman Stewart. The motion carried on a unanimous roll call vote.

The Clerk called the roll.

Present: Aldermen Cavanaugh, Stewart, Shaw, Sharonov

Absent: Alderman Terrio

Messrs.: T. Kitchens

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5. Update from Ted Kitchens, Airport Director on the following:

- COVID-19 Pandemic
- Financial
- Operations

Ted Kitchens, Airport Director, stated it's been a tough fiscal year; it has been for the entire city and many businesses. I will give an update on our pace of recovery through the pandemic. I will remind everybody of our four recovery scenarios that the team plotted out in April of last year while we were at -95% once the pandemic hit. I will give you an outlook for the fourth quarter as far as seats on the airlines in the market. Then we will go over finance and administration updates including properties and operations. The current pace of recovery has significantly increased over the last quarter, mostly due to the pace of getting vaccinations out to the public. As I've shared with this committee in the past, we have always felt that the vaccinations would be the tipping point in terms of getting the consumer confidence back onto an airplane. We are now in the fourth phase of recovery. We anticipate this phase to continue until we reach 100% pre-pandemic level. To a large degree this will continue to be governed by the pace of vaccinations. The airport will receive additional federal assistance through the American Rescue Plan signed into law by the President. This graph displays our seven day rolling passenger counts. Calendar year 2019 is the light gray line on the top. Calendar year 2020 is the dark gray line which is easily seen by the pandemic. Calendar year 2021 is the blue line, you can see we are well above where we were this time last year. We are still about 50% below 2019 activity levels. The fourth period of growth really started in early mid-February around winter break then leveled off until the spring break period which resulted in another bump as seen in mid-May. That spike corresponds to the 2019 spike at the same time. A lot of the underlying trends are staying true in the market, just at a much lower level. Overall, all of New England is lagging in returning to the skies compared to others. All the airports in New England are only at a 41% recovery level. We are about 50% so we are actually doing better than our counterparts. The median rate of return and demand in the rest of United States is roughly 55%. In fact, a report came out this morning that 1.8 million people went through the TSA checkpoints at all 450 federalized airports on Sunday. That is about 70%

back to pre-pandemic levels. I'd like to point out that the dark gray line in the first part of 2020 versus 2019 shows we were having a really great year until march 11th of last year when we went down due to the pandemic. Looking at the four recovery scenarios, the blue line was our historical trend line heading into the pandemic. This is the total number of passengers getting on a plane by month for fiscal years 18, 19 and 20. The four recovery scenarios were the fast recovery with the gray line and circles, the moderate recovery with the gray line and triangles, the slow recovery with the squares and then prolonged recover with the diamonds. The red line with circles is our actual pace of recovery. We are right on pace with the slow recovery model with a few variations month-to-month. Overall we are slightly above the slow recovery model. This was the model we used for all of our FY21 budgeting as well as FY22. We are exactly where we thought we would be but not where we want to be. There is a note stating a forecast expiration of the CARES, CRRSA and ARP monies which are federal grant monies we have and will receive through stimulus packages from Washington, D.C. You can see that is forecast all the way out to the end of FY23. We have enough funding to take care of our debt service for another 18 months. This is a very comforting place to be in particularly if we stay on the slow recovery model. If we can get back to 100% pre-pandemic level by the end of FY22, then we will have a really good cushion of federal funds that could be drawn down. Looking ahead for this quarter, we anticipate 189,000 people getting on board our airplanes. United returns to market on 6/3 which has been confirmed by network planning. We will welcome United back with open arms on 6/3. They will fly two times daily right now to Washington-Dulles. They haven't really grown the Dulles hub back to the four bank structure that they had because Washington, D.C. is primarily a business and international travel market. They just don't have that connectivity right now because business and international business travel has not come back yet. If we assume an 80% load factor for all the seats, that will give us for the year 109,000 enplanements. For the fiscal year it

will give us about 290,000. For comparison purposes, in FY2019 we had about 850,000 enplanements. So you see how much of a drop there was because of the pandemic. This is still above the slow recovery model that predicted 266,000 enplanements. Our financials will come in a little bit better. We received the CARES Act grant of \$12.1 million and have drawn just over \$10 million. I just signed a form last Friday to draw down the next bit of money. There is a little less than \$2 million remaining. Due to federal requirements, we have to put some of our own money, our POC revenues, in to offset the debt we anticipate which is about \$2 million more for FY21. The Board allowed us to accept the CRRSA grant which was passed by President Trump. We received \$4.3 million from this grant and \$200,000 of that is dedicated towards concession air relief such as our rental cars and airport concessions including Hudson News and Host that runs the Sam Adams. They will be able to tap into the \$200,000 for relief. Tom and I will be attending the Routes Conference in Orlando in late June. This will be our first business trip since the pandemic. We believe attending these conferences will become increasingly important as we don't believe headquarter visits to airlines will be returning anytime soon. Most of these are in North America but some rotate through South and Central America. These will be special considerations we will have to make as a Board going forward. Our pace of recovery has significantly increased. Our current pace of recovery is slightly above the slow model. We will receive an additional \$9 million when I get the grant offer which is the same procedure as we did with the CARES and CRRSA Acts. We have not received the offer from the FAA but are anticipating that. Our financials through February show our revenues at about \$21.7 million, actual expenditures of \$20.8 million resulting in a net revenue of \$820,000. I think this deserves a hats off to the team for actually having a positive number this year. The operational expense savings that we found early on in the pandemic coupled with the CARES Act has helped offset \$4.6 million in losses. Without the CARES Act draw down, we would be at negative \$4.6 million. Instead we are about \$819,000 in the positive

this year. Our liquidity position through April shows we have added 10 days of cash to our cash on hand. In the middle of the pandemic, we were about 437 days and have maintained that number pretty steady. We anticipate that number to remain as long as we continue to draw down on CRRSA and CARES funding for reimbursements. It's important for people to realize these are actually reimbursements. We did not receive a big check. We have to write a check out and then ask for reimbursement after we spend the cash. I'd like to spend a little bit of time on AeroTerm. They own several of our cargo facilities and will develop a new hangar. The airport is coming off the second straight record year in terms of cargo that moved through the airport. E-commerce is here to stay moving forward. The time is now for us to build additional cargo facilities. Tomorrow I will bring forward a resolution to the BMA for consideration that will request approval to solicit bonds to fund the cargo apron. We will construct, maintain and own this apron just as we do with the commercial apron where the commercial carriers park. The bonds will use future federal grants. As you know we receive airport improvement grants. This is a federal grant program for airports and we will use federal FY24-26 grants to pay the principal on the bonds. There will be no airport cash except for non-airport improvement eligible costs or shortfall between what we anticipate we are getting in terms of entitlement funds versus actual entitlement funds that we receive. This is just a way for us to get to these grant monies a little earlier and pledge them as principal to pay down for future years. We are seeking other sources of funds as well. The lease agreement between us and the developer does include a developer contribution equal to our share of airport improvement program eligible apron costs. The Airport Improvement program usually includes 90% of a project, the state chips in 5% and the airport 5% cash. The developer will take care of our 5% for us. Airport cash will not be used except for any shortfalls and entitlement funds to develop the apron for the cargo developer. This is a big development for the Airport. It's extremely important in helping us lower our landing fees even more than the

restructuring of our debt did over the past year and a half. We will be able to get additional aircraft activity here which will lower landing costs for our commercial carriers making us more attractive for future commercial air service.

Alderman Stewart asked for the timeline for this project.

Mr. Kitchens replied the developer had two years to find a tenant and we believe they have found one. We anticipate they will have a final lease agreement sometime in the next month to month and a half. A lot of things can go sideways in business development as you know. There are still some i's to be dotted and t's to be crossed but is looking very promising and we just want to get a head start on this so that the Finance Director and team can get the best deal for the airport and the city.

Alderman Sharonov asked is it a guarantee that we would get the federal grants in FY24-25.

Mr. Kitchens replied as long as there is a federal program for airports then yes. It has been around for a very long time. That is a part of the discussion on how we secure and collateralize the bond. Washington, D.C. is actually trying to make the program bigger than it already is. I am almost positive we will get it. These are entitlement funds. There are two kinds of money we can go after at the FAA - entitlement and discretionary. Entitlements are based on our percentage of passenger enplanements (people getting onboard an aircraft) to the percentage of the national share. There is a formula to calculate that out. The discretionary piece is not guaranteed whereas entitlement you pretty much are. If we were able to get a discretionary grant we could just pay off the grants and bonds a lot faster. Things are moving pretty quickly and we want to stay ahead of this as much as we can. Due to the growth in cargo and Boston not wanting any more cargo in their

airfield, we are looking at how to use our land best. We approached our planning staff to develop some central layouts on how we could optimize this area. The UPS facility reverts back to the airport in 2024. We are in discussion to potentially build a new facility or lease that at fair market value. The existing AeroTerm buildings (the two FedEx buildings) are not optimally placed. They are not in the same area and they have small aprons versus a full apron. Aircraft can only sit on those areas limiting the flexibility to the types of aircraft the airport can receive. We want to optimize this area. Making certain we are building the right facilities in the right location will allow us to receive that additional cargo activity. E-commerce is here to stay. It may not be at the same level as it was in the early pandemic but I believe consumers have tried E-Commerce and it will continue to play a strong roll going forward in the post-pandemic world. We want to be ready to accommodate that growth in a way that makes sense. It's a bit of a planning exercise to make sure we put things in the right location. We have some land on Winston Street that was bought around 2002. We have never been able to get anything developed there. We now have a tenant that will be building a PODS facility. We are working on finalizing the lease agreement which will bring about \$50,000 in lease revenue to the airport on an annual basis escalating at 2% per year. It will be about \$2 million through the fixed term and \$4 million through the full term plus the two option periods. We have used it in the past as a truck staging facility but this will be a much better development. This is by Summit Packaging and across the street from Central Paper. Going into Operations, we had a very successful 2020-2021 snow season. I'd like to call out our top notch snow fighting team. We did not have any airfield closures for the 32nd consecutive year despite 23 weather events, 1 icing event and 1 nasty freezing fog event. Airports do not like freezing fog as they can be very bad events. We used about 55,000 gallons of potassium acetate and about 430 tons of runway sand which is about half what we traditionally budget. Our landside team did a fantastic job. Again, they aren't under the same pressure as the airfield team but they did an excellent

job keeping our roadways safe into the airport. I'm very happy for both of those teams. Taxiway Hotel has gone through the design process and has been bid. Bids came in at \$6.2 million which is less than the engineer's estimated cost. We just received an FAA grant notification award for that project. We are using our entitlement monies for this project this year as well as some of our discretionary monies. We received two grant awards in the amount of \$9 million. This is federal money that has come back into the state, making it 100% federally funded. As part of the stimulus packages, Congress increased the federal participation to 100%. There is no state or airport money required for these grants. It's really good to get a 100% grant at \$6.2 million dollars because 5% of \$6.2 million is a big number, that we no longer have to carry and can repurpose into something else. We anticipate construction to begin in the fall. Our main escalator project, another 100% federally funded grant, will reduce our reoccurring maintenance and operations cost contract for the 5-year term. Construction will begin in early June. The first escalator will be out of commission until October but we will always have an up escalator. We will have some manpower to help guests with bags and include plenty of signage to elevators. Whenever we get the new escalator, we will be able to reverse it up or down depending on the flow of traffic through the building. Right now if we were to reverse an escalator they wouldn't turn on. They are original to the building and worn in their ways.

Alderman Shaw stated we look forward to bigger and greater things.

Mr. Kitchens replied we have some really good things that will happen in the airport over the next few months. I am excited about the future. If everything comes together it could be really good for the airport.

Alderman Stewart stated the airport saw record cargo numbers for the second year in a row. What does that look like?

Mr. Kitchens replied I believe we were up around 5% and it was the first year we clipped over 200 million pounds of cargo out of the airport. We were a top 50 airport for cargo movements two years ago and I wouldn't be surprised if we were higher this year. I was speaking with a cargo carrier today, a former tenant, and I told him what our future landing rate will be which will be around \$4 per 1000 pounds. It has traditionally been around \$6. If you think of the 767's, A300's and big heavy aircraft, they pay a large amount of our landing revenue. Anytime you can move that down \$2-3 it saves them a tremendous amount. This is another reason why we keep seeing cargo activity come here particularly when Boston's landing fees are above \$12.

*There being no further business, **Alderman Stewart** moved to adjourn. **Alderman Shaw** duly seconded the motion. Chairman Porter called for a vote. The motion carried on a unanimous roll call vote.*

A True Record. Attest

A handwritten signature in black ink, appearing to read "Matthew Normand". The signature is fluid and cursive, with a long horizontal stroke at the end.

Clerk of Committee